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CORPORATION FILE

1965
Annual Report

The Babcock & Wilcox Company

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Our 98th Year of Helping Industry Serve America

The Babcock & Wilcox Company

Incorporated in 1881 from a partnership formed in 1867.

Babcock & Wilcox is a major producer of capital goods, including steam generating equipment, nuclear systems and components, cleaning systems for heat transfer surfaces, air pollution control systems, meters and controls, systems for process automation, automated production machinery, steel tubular products and refractories.

Directors

A. G. PRATT, Chairman Emeritus
M. NIELSEN, Chairman
J. S. ANDERSON, President
W. O. BAKER
J. P. CRAVEN
WALTHER H. FELDMANN
J. ROY GORDON
C. W. MIDDLETON
STODDARD M. STEVENS
B. A. TOMPKINS
JOHN C. TRAPHAGEN
G. G. ZIPF

Officers

M. NIELSEN, Chairman and Chief Executive Officer
J. S. ANDERSON, President
R. A. BARR, Vice President
R. J. CANTWELL, Vice President
CARL CLAUS, Vice President
J. P. CRAVEN, Vice President
A. T. FRAGOMEN, Vice President
R. H. HARRISON, Vice President
J. D. HITCH JR., Vice President
G. W. KESSLER, Vice President
S. T. MACKENZIE, Vice President
W. H. ROWAND, Vice President
A. P. TABER, Vice President
L. B. WOHLGEMUTH, Vice President
G. G. ZIPF, Vice President
H. D. KENNEY, Comptroller
W. P. CATTERSON, Treasurer
MARTIN VICTOR, Secretary
O. R. CARPENTER, Assistant Vice President

General Offices	161 East 42nd Street, New York, N.Y. 10017
Stock Transfer Agent	BANKERS TRUST COMPANY, 16 Wall Street, New York, N.Y. 10015
Registrar	THE BANK OF NEW YORK, 48 Wall Street, New York, N.Y. 10015
General Counsel	SULLIVAN & CROMWELL, 48 Wall Street, New York, N.Y. 10005
Auditors	PRICE WATERHOUSE & CO., 60 Broad Street, New York, N.Y. 10004
Stock Listed	NEW YORK STOCK EXCHANGE

Contents

Page

2 1965 Highlights
3 The Chairman's Letter
4 1965 Income and Where it Went
4 Financial Review
6 Financial Statements
8 Ten-Year Financial Comparisons
14 The Market Builders
15 Research and Development Division
16 Boiler and Atomic Energy Divisions
18 Tubular Products Division
20 Refractories Division
21 Diamond Power Specialty Corporation
22 Bailey Meter Company
24 Babcock-Wilcox and Goldie-McCulloch Limited
25 Facilities and Products

Eighty-Fifth

The Babcock & Wilcox Company Annual Report 1965

for the year ended December 31, 1965

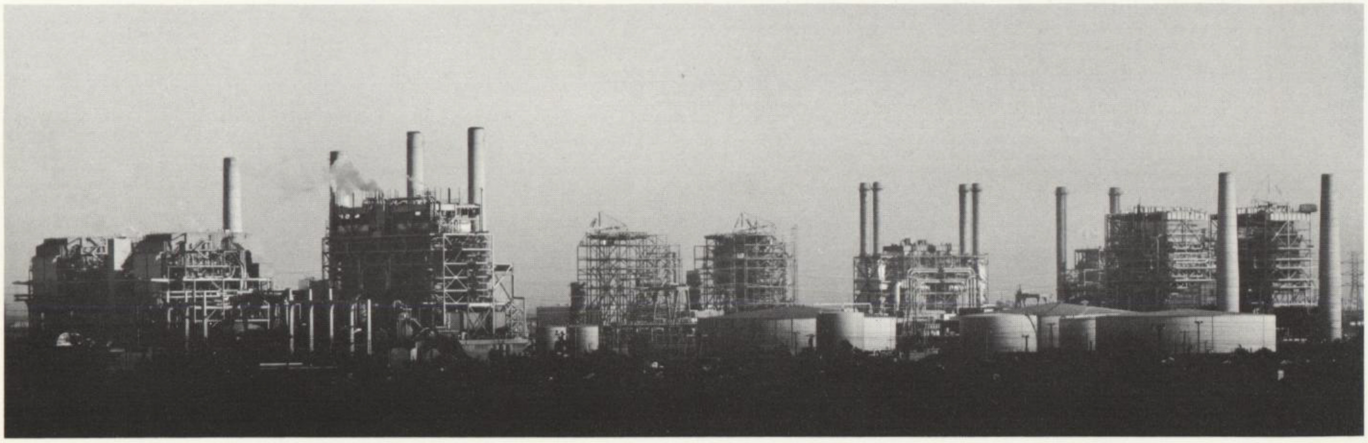
Notice to Stockholders

The Annual Meeting of Stockholders will be held at 10 A.M., Wednesday, April 27, 1966, in the Biltmore Hotel, New York City. A formal notice of the meeting with a proxy statement and form of proxy will be mailed to each stockholder March 17, when management will request proxies.

1965 Highlights

	1965	1964
TOTALS		
Orders received	$651,195,000	$525,814,000
Unfilled orders	637,118,000	467,523,000
Sales (on percentage of completion method for long-term contracts)	481,600,000	430,957,000
Income before income taxes and minority interests	56,340,000	49,271,000
U.S. and foreign taxes on income	26,060,000	23,480,000
Net income for the year	29,450,000	25,196,000
Cash dividends declared	13,458,000	12,211,000
Expenditures for property, plant and equipment	19,610,000	12,265,000
Depreciation and amortization	13,519,000	12,825,000
Payrolls and employee benefits	203,075,000	174,158,000
Average number of employees during year	25,000	23,200
Number of stockholders at year end	17,934	17,122
Number of shares issued at year end	12,366,626	12,366,626
PER SHARE ISSUED*		
Net income for the year	$ 2.38	$ 2.04
Cash dividends declared	1.10	1.00
Stockholders' equity	19.85	18.56

*Per share amounts are based on shares issued at December 31, 1965, including shares held in the Treasury for the Stock Option Plan.



Twelve large boilers stretching across the horizon provide steam for California's growing electric power needs. Eight of the boilers are Babcock & Wilcox units supplied to Southern California Edison Company and the City of Los Angeles. The B&W units' combined capacity is 2,400,000 kilowatts.

The Chairman's Letter

To The Stockholders of
The Babcock & Wilcox Company:

Earnings have increased each year since 1958 at an average rate of 12 per cent. In 1965 they established a new record for the sixth consecutive year.

Shipments, new orders, and backlog also represent records for the Company.

Net income for 1965 of $29,450,000 or $2.38 per share is 17 per cent higher than the $2.04 per share realized in 1964.

Shipments of $481,600,000 were 12 per cent higher than those in 1964.

Consolidated new orders totaled $651,195,000 and were the result of a continued good level of activity in all our markets. Backlog of $637,118,000 at the end of the year was 36 per cent higher than it was at the end of 1964.

On January 28, 1965, the directors increased the quarterly dividend 10 per cent to an annual rate of $1.10 per share.

The quarterly dividend was further increased 14 per cent on January 27, 1966, to an annual rate of $1.25 per share.

The Company has benefited from the general industrial expansion in recent years because our growing list of products covers a wider range of markets. We are continuing to diversify and broaden the sources of our income by developing new products, adapting existing products to new markets, and by acquisitions which fit logically into our pattern for corporate growth.

If the general trend of business continues on its present course, 1966 should be another good year for the Company.

M. Nielsen.
Chairman

February 24, 1966

1965 Income and Where It Went

Our income was		
From products shipped to customers	$481,600,000	
From investment income	1,461,000	
Total	$483,061,000	
We paid out or provided		
For materials and services purchased	$205,172,000	42.5%
For wages, salaries and employee benefits	203,075,000	42.0
For taxes	30,300,000	6.3
For depreciation of plant and equipment	13,519,000	2.8
For interest on money borrowed	715,000	0.1
For minority interests in subsidiary companies	830,000	0.2
For cash dividends to stockholders	13,458,000	2.8
For future growth (retained earnings)	15,992,000	3.3
Total	$483,061,000	100.0%

Financial Review

The figures in this report result from a consolidation of the accounts of the Company and its subsidiaries—Bailey Meter Company, Diamond Power Specialty Corporation, A. M. Lockett & Co., Limited, Standard Refractories Limited, and Babcock-Wilcox and Goldie-McCulloch Limited.

The Company's progress continued in 1965 as new highs were reached in shipments, income, orders and backlog. All divisions and subsidiaries are operating at a profit with the exception of the Atomic Energy division where we must continue to invest heavily in research and development work to be competitive in this growing field.

Dividends were paid during the year 1965 as follows:

Amount Paid per share	Date Paid	Date of Record
$.25	Jan. 4, 1965	Dec. 10, 1964
.27½	April 1, 1965	March 12, 1965
.27½	July 1, 1965	June 10, 1965
.27½	Oct. 1, 1965	Sept. 10, 1965

The financial condition of the Company remains strong. There was no change in the long-term debt of $18,800,000—which is approximately seven per cent of the total capitalization of the Company—as no prepayment was made in 1965. However, previous payments and prepayments have reduced the total debt from $32,000,000 in 1959 and the next mandatory payment is not due until June 1, 1967.

The parent Company is considering the possibility of changing certain of its tax accounting practices from the present accrual method to a method which will minimize payment of taxes in advance of receipts from customers. Because adoption of one of the methods under consideration—the installment method—could result in an additional tax in 1966 on certain profits already reported in taxable income, it was necessary at the end of 1965 to sell to a group of banks, on a one-time basis, certain accounts receivable and rights to proceeds from unbilled shipments. This one-time transaction resulted in a temporary marked decrease in those two assets and a corresponding increase in marketable securities.

Since this sale was on a recourse basis, the Company is contingently liable to the banks for $74,966,000. This contingent liability, because of payments by our customers during the regular course of business, should be reduced to approximately $20,200,000 at the end of 1966, and to $6,100,000 at the end of 1968, and will be fully discharged by June 30, 1973.

Any changes that might be made in the Company's accounting practices would be for tax purposes only and would have no material effect on the Company's financial accounting for determining earnings for stockholder reporting purposes.

Expenditures for property, plant and equipment amounted to $19,610,000 in 1965, up from the $12,265,000 invested in 1964, and were approximately the same as the average for the previous three years. A major portion of the 1965 expenditures was for the completion of the heavy pressure vessel shop at Mount Vernon, Indiana. Capital appropriations already approved by the Board and projects under consideration could result in expenditures of about $30,000,000 in 1966.

During the year 1965 the average number of active employees was 25,000 as compared with 23,200 in 1964.

At the end of 1965 there were 1,410 retired employees receiving pensions, a net increase of 93 during the year. A summary of the Company's pension funds established in accordance with formal plans approved by stockholders in 1955 is as follows:

Contributions by Company during 1965	$ 6,696,000
Income from pension fund investments during 1965	1,929,000
Less pensions paid during 1965	(2,036,000)
Net increase in assets during 1965	6,589,000
Total assets of pension funds on January 1, 1965	38,706,000
Total assets of pension funds on December 31, 1965	$45,295,000

The following is the status of the Company's Stock Option Plans:

1958 Plan

Options were outstanding on January 1, 1965 for	138,634 shares
Options were exercised during 1965 for	25,142 shares
Options were outstanding on December 31, 1965 for	113,492 shares

No further options may be granted under this plan. The 1958 plan required that only previously issued shares be used to meet the stock options granted. The Company acquired sufficient shares for that purpose on the open market by the end of 1962. Shares acquired for options outstanding on December 31, 1965, cost the Company $2,073,416, all of which will be returned as options are exercised. The cost of acquired shares is included in Prepaid Expenses and Other Assets in the Statement of Financial Condition.

1963 Plan

In 1963 the stockholders approved a new Stock Option Plan under which regular full-time employees of the Company and its subsidiaries may be granted options to purchase up to 400,000 shares of the capital stock of the Company with a limit of five per cent to any one employee at an option price of 100 per cent of the market value on the date the option is granted. In accordance with the plan, options may be granted at any time on or before April 1, 1968, and either previously issued shares or authorized but unissued shares of the Company's capital stock can be used to meet the options.

Options were outstanding on January 1 and December 31, 1965, for 124,200 shares and 120,100 shares, respectively. Options for 4,100 shares lapsed during 1965. No options are exercisable until November 6, 1966. Thereafter each option becomes exercisable in equal installments over the succeeding three-year period ending November 5, 1969. On January 1 and December 31, 1965, there remained 275,800 shares and 279,900 shares, respectively, available for the granting of options.

Consolidated Statement of Financial Condition

		At December 31	
		1965	1964
CURRENT ASSETS			
Cash		$ 14,641,127	$ 10,590,906
Marketable securities, at cost (approximate market)		79,116,608	24,548,573
Accounts receivable	$ 86,224,563		69,197,390
Unbilled shipments and installations, at contract prices	35,571,017		26,776,992
	121,795,580		
Less: Amount sold to banks with full recourse (see page 4)	64,811,679		
		56,983,901	
Inventories, at lower of cost or market		106,813,261	93,280,264
Advance payments on contracts		(7,876,500)	(7,850,400)
TOTAL CURRENT ASSETS		249,678,397	216,543,725
CURRENT LIABILITIES			
Accounts payable		32,770,229	28,001,068
Accrued liabilities		26,742,247	24,491,020
Cash dividends payable		3,367,930	3,055,488
Provision for additional costs on contracts		4,354,299	4,375,294
U.S. and foreign income taxes		19,043,439	18,911,295
TOTAL CURRENT LIABILITIES		86,278,144	78,834,165
WORKING CAPITAL		163,400,253	137,709,560
LONG-TERM RECEIVABLES	$ 10,540,787		13,922,896
Less: Amount sold to banks with full recourse (see page 4)	10,154,219		
		386,568	
INVESTMENTS, at cost		960,833	1,278,193
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation and amortization: 1965–$130,382,276; 1964–$118,583,188		102,476,039	96,364,845
PREPAID EXPENSES AND OTHER ASSETS (includes cost of shares of the Company's stock acquired for stock options: 1965–113,492 shares; 1964–138,634 shares. See page 5)		3,292,495	4,378,974
PATENTS		1	1
WORKING CAPITAL AND OTHER ASSETS		270,516,189	253,654,469
DEDUCT			
Long-term debt–notes payable (3⅝% and 3⅞%) due in annual installments, June 1, 1967-1974		18,800,000	18,800,000
Minority interests in subsidiary companies		6,212,436	5,342,227
NET ASSETS		$245,503,753	$229,512,242
REPRESENTED BY			
Capital Stock			
Par value per share	$ 4.50		
Shares authorized	18,000,000		
Shares issued	12,366,626		
TOTAL (including $26,681,610 excess over par value–capital surplus)		$ 82,331,427	$ 82,331,427
Retained earnings		163,172,326	147,180,815
		$245,503,753	$229,512,242

Consolidated Statement of Income & Retained Earnings

	For the Calendar Year	
	1965	1964
Sales (on percentage of completion method for long-term contracts)	$481,600,137	$430,956,751
Costs and expenses:		
Materials, payrolls, services and taxes other than U.S. and foreign taxes on income	412,486,804	370,334,669
Depreciation of plants and equipment	13,519,328	12,824,732
	426,006,132	383,159,401
Income from operations	55,594,005	47,797,350
Income from investments and marketable securities	1,461,742	2,223,558
Interest expense	(715,300)	(750,175)
Income before taxes and minority interests	56,340,447	49,270,733
U.S. and foreign taxes on income	26,060,000	23,480,000
	30,280,447	25,790,733
Income applicable to minority interests	(830,250)	(594,239)
Net income for the year	29,450,197	25,196,494
Equity in earnings of subsidiary prior to obtaining majority control		1,029,404
	29,450,197	26,225,898
Cash dividends declared	13,458,686	12,210,822
Remainder added to retained earnings	15,991,511	14,015,076
Retained earnings at beginning of year	147,180,815	133,165,739
Retained earnings at end of year	$163,172,326	$147,180,815

Consolidated Statement of Source and Application of Funds

	For the Calendar Year	
	1965	1964
SOURCES:		
Net income	$29,450,197	$ 25,196,494
Depreciation and amortization	13,519,328	12,824,732
Working capital of subsidiary initially consolidated		5,084,243
	42,969,525	43,105,469
APPLICATIONS:		
Additions to property, plant and equipment	19,610,227	12,264,504
Cash dividends declared	13,458,686	12,210,822
Net increase (decrease) in long-term receivables	(13,536,328)	(1,876,427)
Reduction of long-term debt		2,200,000
Other (net)	(2,253,753)	448,170
	17,278,832	25,247,069
NET INCREASE (DECREASE) IN WORKING CAPITAL	$25,690,693	$ 17,858,400

Opinion of Independent Accountants

To the Stockholders and Directors of The Babcock & Wilcox Company:

In our opinion, the accompanying consolidated statements of financial condition, income and retained earnings, and source and application of funds present fairly the financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1965, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

New York, N.Y., February 23,1966

Ten-Year Comparison of

Financial Condition (in thousands of dollars)

At December 31		1965
CURRENT ASSETS		
Cash		$ 14,641
Marketable securities		79,117
Accounts receivable	$ 86,225	
Unbilled shipments and installations	35,571	
	121,796	
Less: Amount sold to banks with full recourse (see page 4)	64,812	
		56,984
Inventories		106,813
Advance payments on contracts		(7,877)
TOTAL CURRENT ASSETS		249,678
CURRENT LIABILITIES		
Notes payable		
Accounts payable		32,770
Accrued liabilities		26,742
Cash dividends payable		3,368
Provision for additional costs on contracts		4,354
U.S. and foreign income taxes		19,044
TOTAL CURRENT LIABILITIES		86,278
WORKING CAPITAL		163,400
LONG-TERM RECEIVABLES	$ 10,541	
Less: Amount sold to banks with full recourse (see page 4)	10,154	
		387
INVESTMENTS		961
PROPERTY, PLANT AND EQUIPMENT		102,476
PREPAID EXPENSES AND OTHER ASSETS		3,292
WORKING CAPITAL AND OTHER ASSETS		270,516
DEDUCT		
Long-term debt		18,800
Minority interests in subsidiary companies		6,212
NET ASSETS		$245,504
REPRESENTED BY		
Capital including capital surplus		$ 82,332
Stock dividends paid January following year		
Retained earnings		163,172
		$245,504

Ten-Year Comparison of

Source and Application of Funds (in thousands of dollars)

For the Calendar Year	1965
SOURCES:	
Net income	$ 29,450
Depreciation and amortization	13,519
Sale of capital stock	
Issuance of long-term debt	
Working capital of subsidiary initially consolidated	
	42,969
APPLICATIONS:	
Additions to property, plant and equipment	19,610
Cash dividends declared	13,458
Net increase (decrease) in long-term receivables	(13,535)
Reduction of long-term debt	
Other (net)	(2,254)
	17,279
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ 25,690

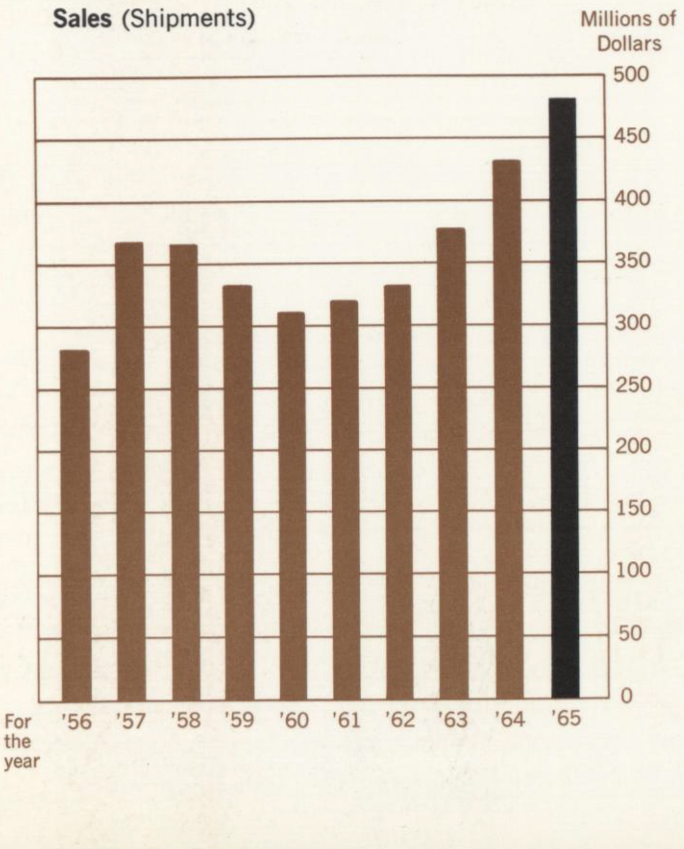
1964	1963	1962	1961	1960	1959	1958	1957	1956
$ 10,591	$ 13,026	$ 9,169	$ 10,771	$ 12,887	$ 9,531	$ 11,764	$ 12,873	$ 14,578
24,549	20,296	41,837	55,889	48,682	29,987	11,686	4,729	1,999
69,197	49,213	49,726	54,218	53,133	59,726	52,514	45,686	39,394
26,777	22,631	17,850	17,453	15,580	21,688	29,533	20,200	10,161
93,280	93,452	87,632	72,151	66,188	63,357	76,939	104,504	91,486
(7,850)	(15,166)	(20,142)	(13,752)	(13,205)	(10,608)	(11,226)	(12,168)	(9,427)
216,544	183,452	186,072	196,730	183,265	173,681	171,210	175,824	148,191
			2,200	2,200				
28,001	17,518	14,470	9,817	11,192	12,678	12,991	10,838	12,270
24,491	21,366	20,285	17,563	15,911	16,950	15,436	14,922	12,186
3,056	2,622	2,434	2,443	2,135	1,832	1,520	1,472	1,286
4,375	3,662	2,795	2,000	1,603	2,611	3,913	3,315	1,762
18,911	18,433	16,215	16,183	13,060	12,157	12,312	14,975	13,867
78,834	63,601	56,199	50,206	46,101	46,228	46,172	45,522	41,371
137,710	119,851	129,873	146,524	137,164	127,453	125,038	130,302	106,820
13,922	15,799	9,727						
1,278	2,621	868	1,044	723	604	604	604	1,600
96,365	95,473	83,679	68,406	70,925	73,390	67,867	56,741	49,830
4,379	4,971	4,759	3,930	4,097	3,472	1,890	734	1,058
253,654	238,715	228,906	219,904	212,909	204,919	195,399	188,381	159,308
18,800	21,000	23,200	25,400	29,800	32,000	32,000	32,000	32,000
5,342	2,218	1,476	1,375	1,372	1,367	1,350	1,261	1,158
$229,512	$215,497	$204,230	$193,129	$181,737	$171,552	$162,049	$155,120	$126,150
$ 82,332	$ 82,332	$ 82,332	$ 82,332	$ 82,332	$ 82,332	$ 80,339	$ 73,338	$ 46,311
						1,993	7,000	8,760
147,180	133,165	121,898	110,797	99,405	89,220	79,717	74,782	71,079
$229,512	$215,497	$204,230	$193,129	$181,737	$171,552	$162,049	$155,120	$126,150

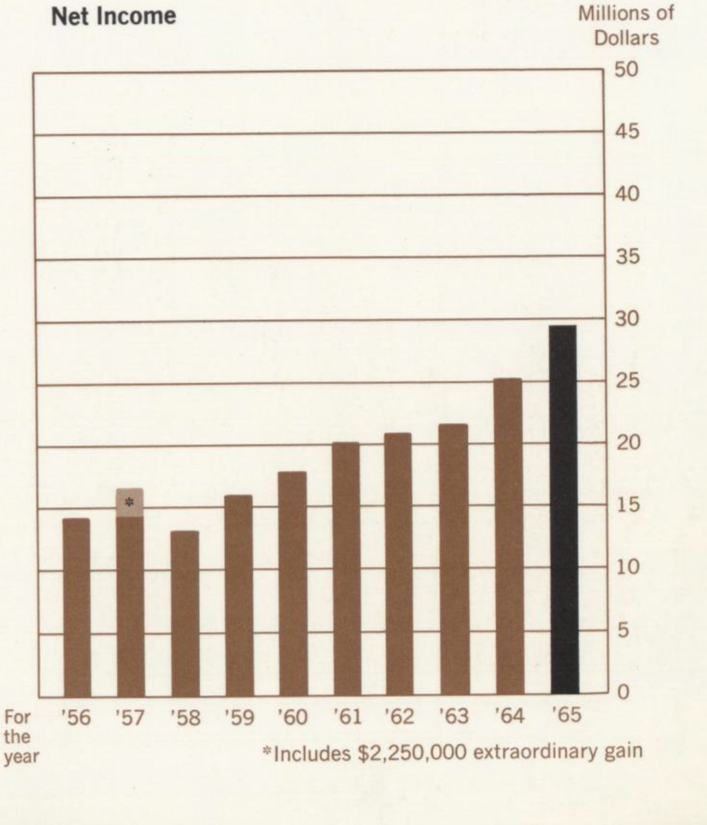
1964	1963	1962	1961	1960	1959	1958	1957	1956
$ 25,196	$ 21,747	$ 20,860	$ 20,241	$ 17,817	$ 15,938	$ 13,035	$ 16,456	$ 14,081
12,825	11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699
							18,267	
								22,000
5,084								
43,105	32,974	31,195	28,914	26,360	23,588	20,048	41,502	42,780
12,265	23,101	25,662	6,188	6,105	13,183	18,162	13,708	15,921
12,211	10,480	9,759	8,849	7,632	6,435	6,107	5,753	5,146
(1,877)	6,072	9,727						
2,200	2,200	2,200	4,400	2,200				
448	1,143	498	117	712	1,555	1,043	(1,441)	193
25,247	42,996	47,846	19,554	16,649	21,173	25,312	18,020	21,260
$ 17,858	$(10,022)	$(16,651)	$ 9,360	$ 9,711	$ 2,415	$ (5,264)	$ 23,482	$ 21,520

Ten-Year Comparison of

Income & Retained Earnings (in thousands of dollars)

For the Calendar Year	1965
Sales (on percentage of completion method for long-term contracts)	$481,600
Costs and expenses:	
Materials, payrolls, services and taxes other than U.S. and foreign taxes on income	412,487
Depreciation and amortization	13,519
	426,006
Income from operations	55,594
Income from investments and marketable securities	1,461
Interest expense	(715)
Income before taxes and minority interests	56,340
U.S. and foreign taxes on income	26,060
	30,280
Income applicable to minority interests	(830)
Extraordinary gain less related taxes	
Net income for the year	29,450
Equity in earnings of subsidiary prior to obtaining majority control	
	29,450
Dividends declared:	
Cash	13,458
Stock–1% in 1958, 4% in 1957 and 1956	
	13,458
Remainder added to retained earnings	15,992
Retained earnings at beginning of year	147,180
Transfer to capital stock	
Retained earnings at end of year	$163,172



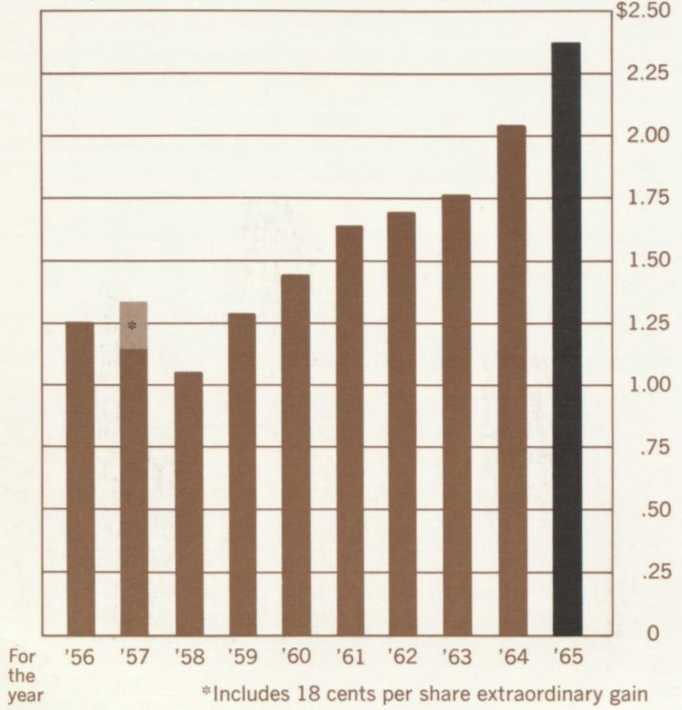


*Includes $2,250,000 extraordinary gain

1964	1963	1962	1961	1960	1959	1958	1957	1956
$430,957	$377,684	$330,574	$319,353	$310,999	$332,071	$365,941	$366,081	$281,485
370,335	321,392	277,245	268,721	266,749	291,058	329,221	326,375	244,890
12,825	11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699
383,160	332,619	287,580	277,394	275,292	298,708	336,234	333,154	251,589
47,797	45,065	42,994	41,959	35,707	33,363	29,707	32,927	29,896
2,224	2,035	2,068	2,283	2,011	1,509	462	386	562
(750)	(834)	(952)	(1,120)	(1,218)	(1,218)	(1,218)	(1,238)	(854)
49,271	46,266	44,110	43,122	36,500	33,654	28,951	32,075	29,604
23,480	24,240	23,000	22,580	18,380	17,430	15,640	17,630	15,320
25,791	22,026	21,110	20,542	18,120	16,224	13,311	14,445	14,284
(595)	(279)	(250)	(301)	(303)	(286)	(276)	(239)	(203)
							2,250	
25,196	21,747	20,860	20,241	17,817	15,938	13,035	16,456	14,081
1,030								
26,226	21,747	20,860	20,241	17,817	15,938	13,035	16,456	14,081
12,211	10,480	9,759	8,849	7,632	6,435	6,107	5,753	5,146
						1,993	7,000	8,760
12,211	10,480	9,759	8,849	7,632	6,435	8,100	12,753	13,906
14,015	11,267	11,101	11,392	10,185	9,503	4,935	3,703	175
133,165	121,898	110,797	99,405	89,220	79,717	74,782	71,079	70,984
								(80)
$147,180	$133,165	$121,898	$110,797	$ 99,405	$ 89,220	$ 79,717	$ 74,782	$ 71,079

Earnings per Share

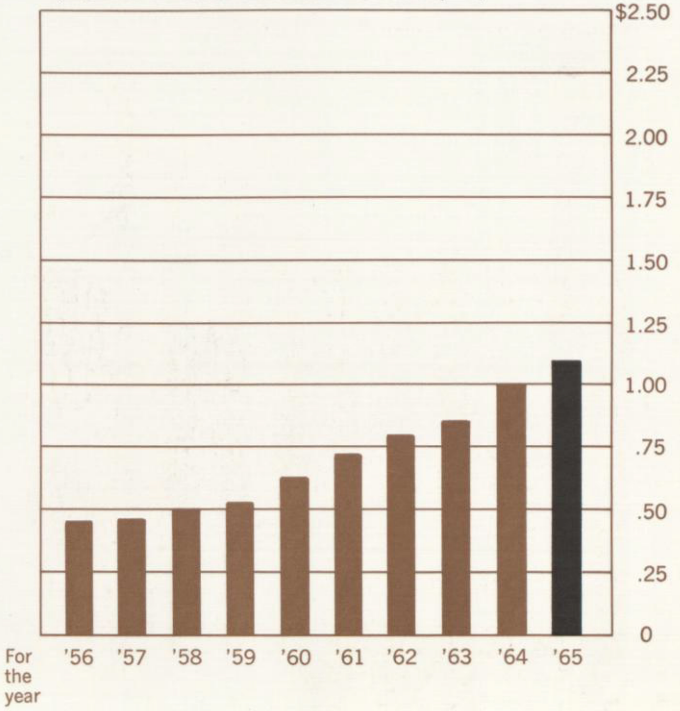
(adjusted for stock dividends and stock splits)



*Includes 18 cents per share extraordinary gain

Cash Dividends Declared per Share

(adjusted for stock dividends and stock splits)



Ten-Year Comparison of

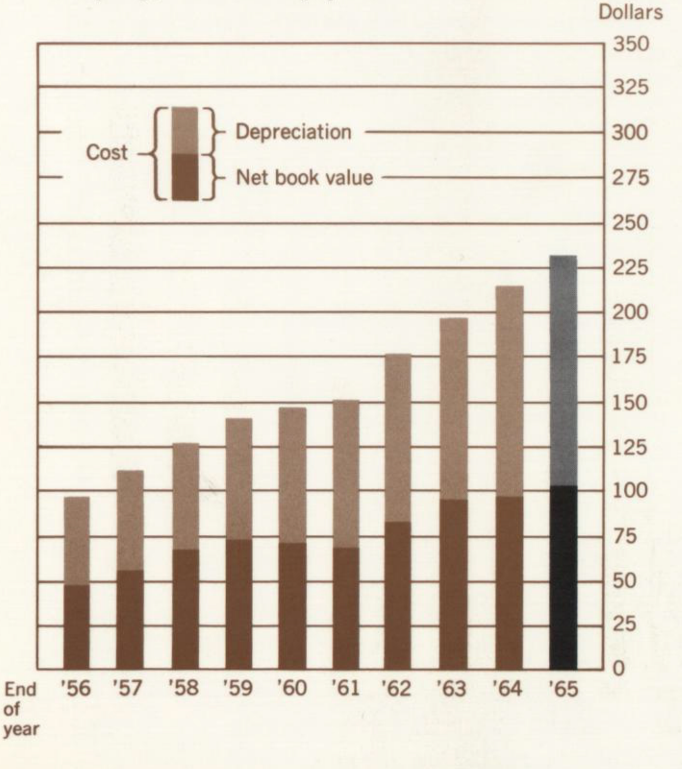
Property, Plant & Equipment (in thousands of dollars)

At December 31	1965
COST	
At beginning of year	$214,948
Expenditures during year	19,610
Other additions—initial consolidation of subsidiary	119
Retired or sold during year	(1,819)
At end of year	232,858
DEPRECIATION AND AMORTIZATION	
At beginning of year	118,583
Charged to operations during year	13,519
Accumulated—initial consolidation of subsidiary	29
Accumulated on property retired or sold during year	(1,749)
At end of year	130,382
NET BOOK VALUE	$102,476

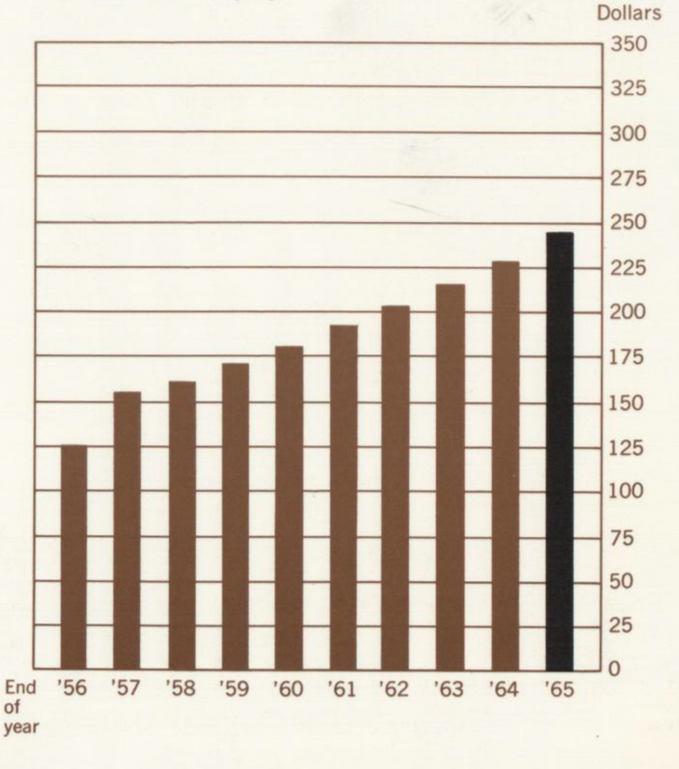
Statistics

	1965
Income from operations before taxes—% of sales	11.5%
Net income for year—% net worth first of year	12.8%
Orders received—thousands of dollars	$651,195
Unfilled orders—thousands of dollars	$637,118
Shares issued during year: Stock dividend	
Stock split	
Stock sold	
Shares issued end of year	12,366,626
Per share issued (adjusted for stock dividends and stock splits—12,366,626 shares in 1957-1965 inclusive and 11,242,388 in 1956)	
Income for year	$2.38
Cash dividends declared	1.10
Stockholders' equity	19.85

Property, Plant and Equipment

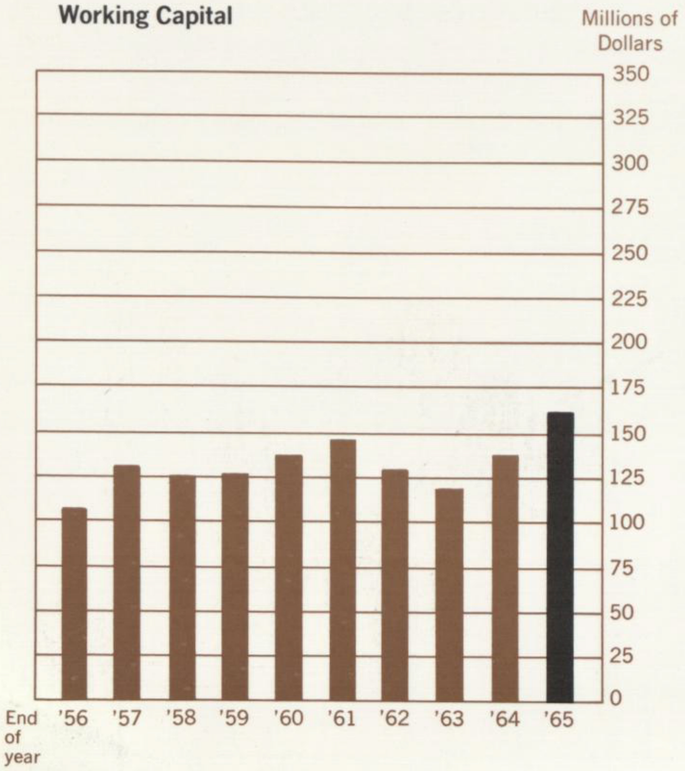


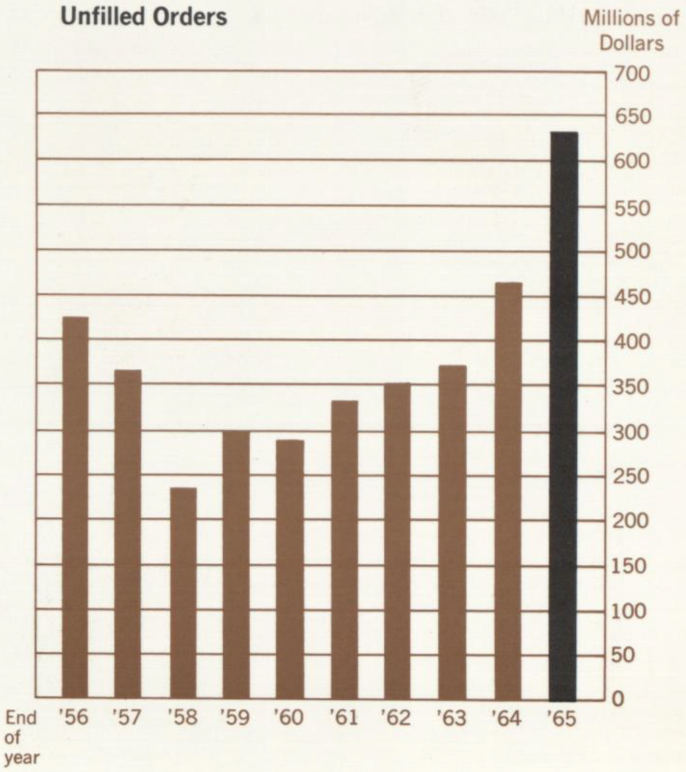
Stockholders' Equity



1964	1963	1962	1961	1960	1959	1958	1957	1956
$198,827	$176,502	$151,518	$146,140	$140,587	$127,800	$110,291	$ 97,311	$ 82,215
12,265	23,101	25,662	6,188	6,105	13,183	18,162	13,708	15,921
5,177								
(1,321)	(776)	(678)	(810)	(552)	(396)	(653)	(728)	(825)
214,948	198,827	176,502	151,518	146,140	140,587	127,800	110,291	97,311
103,354	92,823	83,112	75,215	67,197	59,933	53,550	47,481	41,558
12,825	11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699
3,613								
(1,209)	(696)	(624)	(776)	(525)	(386)	(630)	(710)	(776)
118,583	103,354	92,823	83,112	75,215	67,197	59,933	53,550	47,481
$ 96,365	$ 95,473	$ 83,679	$ 68,406	$ 70,925	$ 73,390	$ 67,867	$ 56,741	$ 49,830

1964	1963	1962	1961	1960	1959	1958	1957	1956
11.1%	11.9%	13.0%	13.1%	11.5%	10.0%	8.1%	9.0%	10.6%
11.7%	10.6%	10.8%	11.1%	10.4%	9.8%	8.4%	13.0%	12.0%
$525,814	$398,990	$348,907	$361,285	$301,146	$395,540	$236,201	$306,072	$495,257
$467,523	$372,666	$351,360	$333,027	$291,095	$300,948	$237,479	$367,219	$427,228
					61,220	235,465	205,826	81,677
6,183,313								3,430,436
							535,148	
12,366,626	6,183,313	6,183,313	6,183,313	6,183,313	6,183,313	6,122,093	5,886,628	5,145,654
$ 2.04	$ 1.76	$ 1.69	$ 1.64	$ 1.44	$ 1.29	$ 1.05	$ 1.33	$ 1.25
1.00	.86	.80	.73	.63	.53	.50	.47	.46
18.56	17.43	16.51	15.62	14.70	13.87	13.10	12.54	11.22





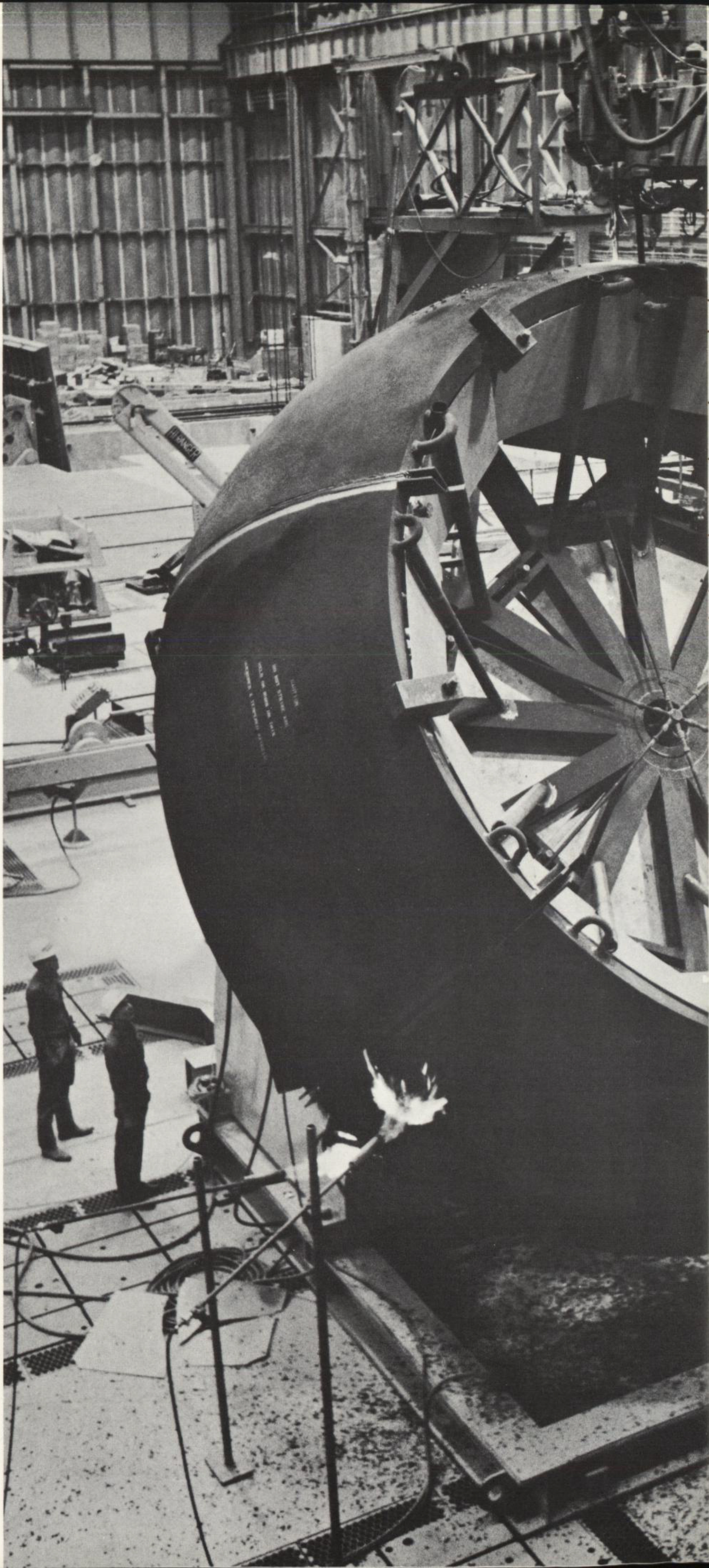
The Market Builders

Successive record years, such as those achieved by B&W since 1960, result from many things. They come from unique human and material capabilities and strengths which have been years in the making and are harnessed into an effective, productive force. They reflect the success with which a company anticipates its customers' needs.

A good example of this was the ability of our Tubular Products division to step up its production of steel tubing for use in bearings when the automobile industry increased its output of new cars in 1965. The installation of a vacuum degassing unit at our Koppel, Pa., steel plant in 1964 figured strongly in this achievement. It makes it possible to produce the highest commercial quality steels now used in anti-friction bearings.

Construction of our heavy pressure vessel plant at Mount Vernon, Ind., is another example of the Company's efforts to keep ahead of market demands. The plant began production in September 1965. Its first shipment (a 700-ton oil refinery vessel) will be made in 1966, and work is scheduled for nuclear and petroleum vessels through 1968.

All the Company's product development programs are customer oriented. Systematic investment in more productive facilities and machinery, steady investigation of worldwide industrial requirements, and imaginative research are all aimed at the development and manufacture of growth products which fill expanding needs. In this manner, B&W is building for the markets of tomorrow.



The enormous size of nuclear components fabricated in the Company's new facility at Mount Vernon, Ind., is shown by this closure head. It is part of the 800-ton reactor vessel B&W is supplying for Commonwealth Edison's Dresden 2 atomic power station near Chicago. A prime requirement is that, despite their size, these huge vessels must be machined to precise tolerances. Mount Vernon has the most advanced equipment available for this purpose.

Research and Development Division

Throughout the history of the Company, Babcock & Wilcox products have been outstanding for their technological excellence. This is the result of maintaining the highest engineering and manufacturing standards and of the concentrated research underlying all B&W product development work.

Research at Babcock & Wilcox is aimed at improving existing products and at developing new products, new processes, and more efficient manufacturing methods.

Such work is the outgrowth of studies and planning continually carried on by our operating divisions and subsidiaries, and by the Research and Development division. With our engineering and production efforts coordinated with our research programs, the Company is successfully maintaining its competitive leadership.

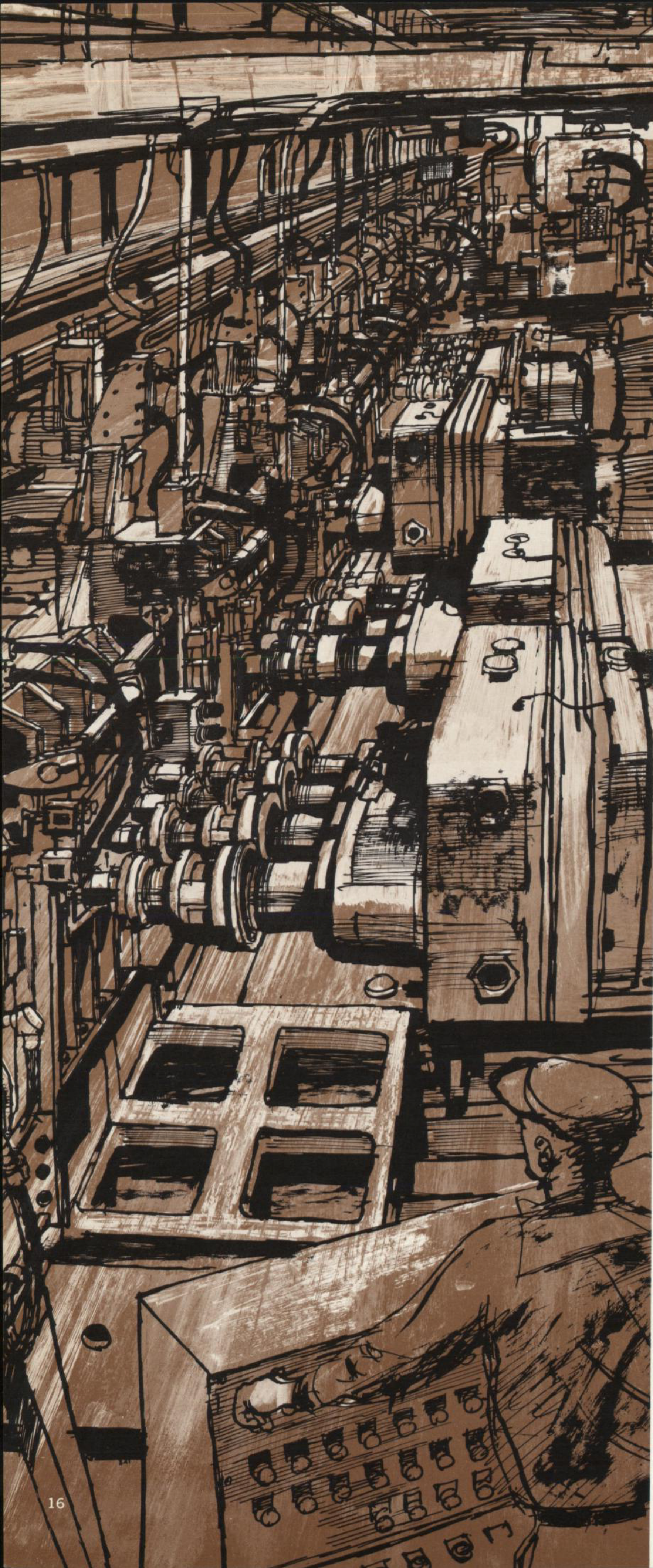
Advanced research into basic principles of importance to the Company is carried on at the Research Center in Alliance, Ohio, and at the Nuclear Development Center in Lynchburg, Va.

Research ranges across such widely varied fields as thermodynamics, electronics, solid state and nuclear physics, radioactive chemistry, and chemical process engineering. Metallurgical research is done for the Boiler, Atomic Energy, and Tubular Products divisions. Progress in high-temperature ceramic fiber work has strengthened our position in this expanding field.

Responding to forecast scarcities of reasonably-priced uranium, the Research and Development division is working with the Atomic Energy division toward the design of efficient fast-breeder nuclear reactors. Improved fuel utilization concepts are being developed for uranium, thorium, and plutonium recycle programs.

Chemical processing and electronic projects are being explored to broaden the Diamond Power product line. Through the use of computer simulation, the Research and Development division is assisting Bailey Meter in the development of automated instruments and controls for large and complex systems.

Crucibles loaded with plutonium fuel are placed in small test furnaces during nuclear reactor fuel cycle studies in the B&W Nuclear Development Center at Lynchburg, Va.



Boiler and Atomic Energy Divisions

Continued good acceptance of the Babcock & Wilcox Universal Pressure boiler was evidenced in 1965 when the Tennessee Valley Authority purchased a 1,130,000-kilowatt unit of this design, the largest boiler ever ordered. In all, 31 different power companies, here and abroad, have purchased 62 such boilers to serve nearly 30,000,000 kilowatts of electric generating capacity. There are now 22 boilers of this type in operation serving a total capacity of 9,000,000 kilowatts.

The effectiveness of the Company's efforts to anticipate customer needs is also shown by the wide acceptance of its package boilers—shop-assembled units readily placed in service in the customer's facility. Record numbers of the FM package-type boiler were sold in 1965.

Also during 1965, B&W placed in service the highest capacity package boiler ever built, a 200,000-pounds-of-steam-per-hour Cyclopak at the Waldorf Paper Products Company, St. Paul, Minn. Orders for an unprecedented total of 15 B&W process and recovery boilers were received from the pulp and paper industry.

Nuclear Capabilities

Completion of the new Boiler division plant at Mount Vernon, Ind., expands our facilities for integrated production of nuclear power equipment.

The Company is aggressively continuing its research, engineering, and manufacturing activities in the field of nuclear energy. B&W is a major supplier of nuclear components for the Navy, and orders are mounting for aluminum-clad fuel elements for commercial installations.

Reflecting extensive experience, the operators of the Nuclear Ship Savannah have hailed her reliability and performance. Success of this nuclear propulsion system, designed and built by B&W, has spurred interest in nuclear power for the merchant marine.

Automated machinery from the W. F. & John Barnes works helps the automotive industry increase output and control costs. The illustration shows transfer equipment doing a sequence of boring and machining operations to accommodate camshafts and crankshafts in cylinder blocks. It machines 130 cylinder blocks an hour.

Special Products

A major contribution to petroleum refining progress was made in 1965 with the fabrication of eight record-size pressure vessels for the Richmond, Cal., Refinery of Standard Oil Company of California. These vessels are for use in a new hydrocracking refinery process. Eight more such vessels are nearing completion for two other oil companies.

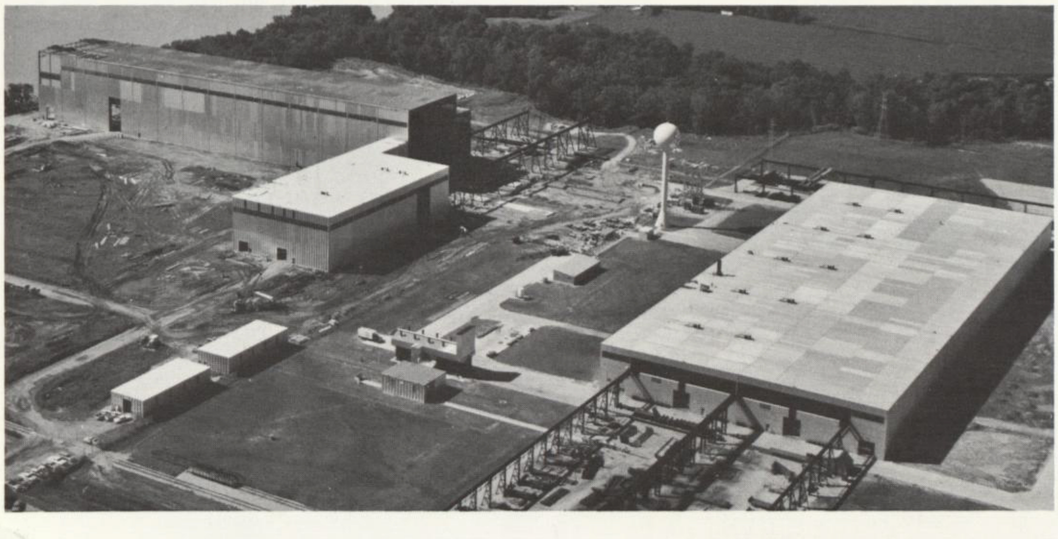
W. F. & John Barnes Works

The automotive industry looks to the W. F. & John Barnes works of Rockford, Ill., for highly automated production machinery. During 1965 Barnes received, among others, a $3.5 million contract from a large automotive manufacturer for such machinery. Barnes is also applying its skills in other fields, obtaining business from manufacturers of tractors, valves, farming and earthmoving equipment.

Menardi and Company

New production facilities at Torrance, Cal., were occupied late in 1965 by Menardi and Company, the filter bag manufacturer acquired in 1964. In these facilities, Menardi will be able to step up production of glass fiber filter bags and filter bag gas-cleanup systems for the electric utility, primary metals, petroleum, chemical, carbon-black, cement, and other industries.

Weighing 500 tons, an Isomax vessel built at the Barberton, Ohio, works is erected at the Richmond, Cal., Refinery of Standard Oil Company of California. Our ability to fabricate such vessels has accelerated the use of hydrocracking in the petroleum industry.



Built largely by the Company's own construction forces, the new heavy pressure vessel facility at Mount Vernon, Ind., went into production late in 1965. Future nuclear reactor vessels, some as large as 1,000 tons, will be fabricated here and shipped on barges via the Ohio River to locations anywhere in the world.

Installed in late 1965, this new ring rolling machine and press, along with auxiliary equipment, enables the Tubular Products division to step up its rolled ring output substantially. The division can also serve broader markets with larger-size rings. These pre-finished specialty items are being used increasingly to cut costs in the manufacture of such steel products as bearing races, machine collars, and mechanical fittings.

Tubular Products Division

B&W's Tubular Products division is one of the world's leading suppliers of specialty steel tubing.

The power and process industries provide a sizeable market for its output. But the fastest growing area is the metalworking field. Tubing, extrusions, and rolled rings find widespread use in automobiles and trucks, aircraft, roadbuilding and earthmoving machinery, household appliances, and many other mechanical applications.

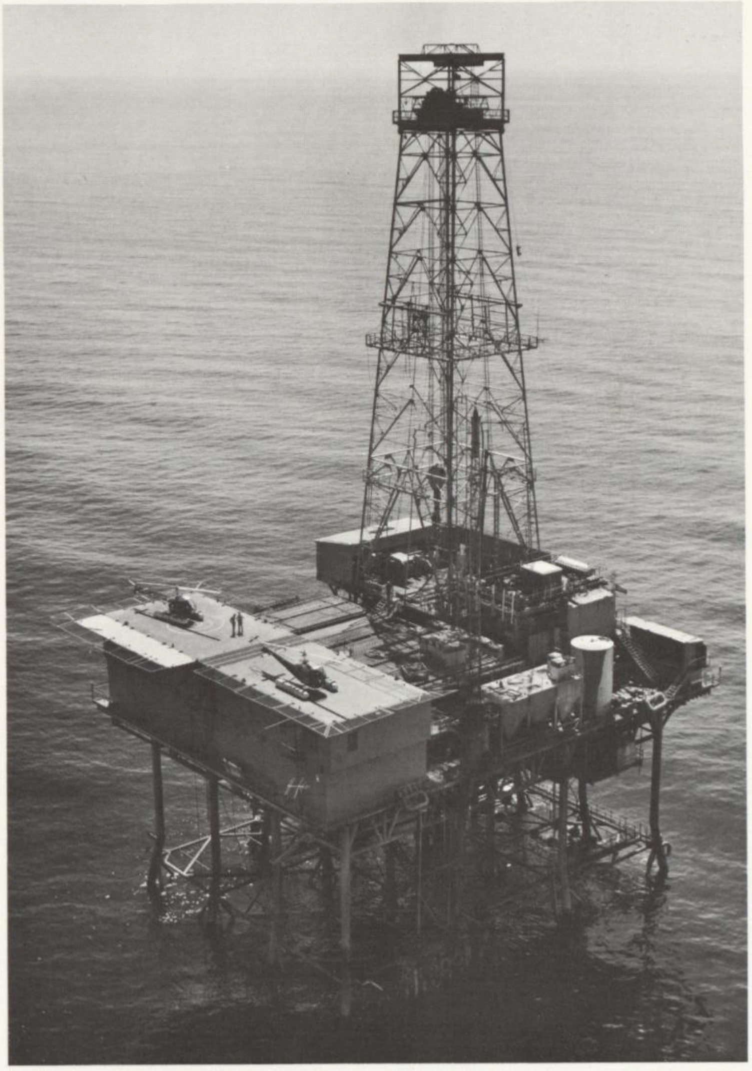
Completion of expanded rolled ring facilities at its Koppel, Pa., complex enables the division to serve still more markets. Supplementing facilities which supply components to the antifriction-bearing industry, the expanded plant can produce larger size rings for other industries and permits greatly increased ring output.

An example of the division's leadership in specialized fields is a new family of Stroloy steels. Stroloy is a B&W-developed high-strength tubing steel for critical structural and mechanical applications. This new material increases the ranges and capacities of structural members such as crane booms and jibs, high-strength mechanical parts, and high-pressure hydraulic cylinders.

The development of superior welding techniques has enabled the Alliance, Ohio, welded tube plant to produce a broader range of steel tubing in grades which previously could not be welded.

Efficiency of the division's tube piercing mills at Beaver Falls, Pa., is being improved with installation of new production equipment. It anticipates customer requirements for tubing of more precise tolerances in a greater variety of sizes.

Demands for the highest commercial quality steel and steel tubing are being met by the vacuum degassing equipment at Koppel. Additional units will be installed as the market for specialized grades expands.



The petroleum industry is a major user of Babcock & Wilcox tubing and fittings in refineries, pipelines, oil fields, and offshore operations, as in this Cities Service Oil Company drilling rig. B&W is also supplying especially high quality tubing for tests tied in with "Operation Mohole," the scientific project to tap the earth's crust in the Pacific Ocean in order to learn more about the nature of the inner earth.

Refractories Division

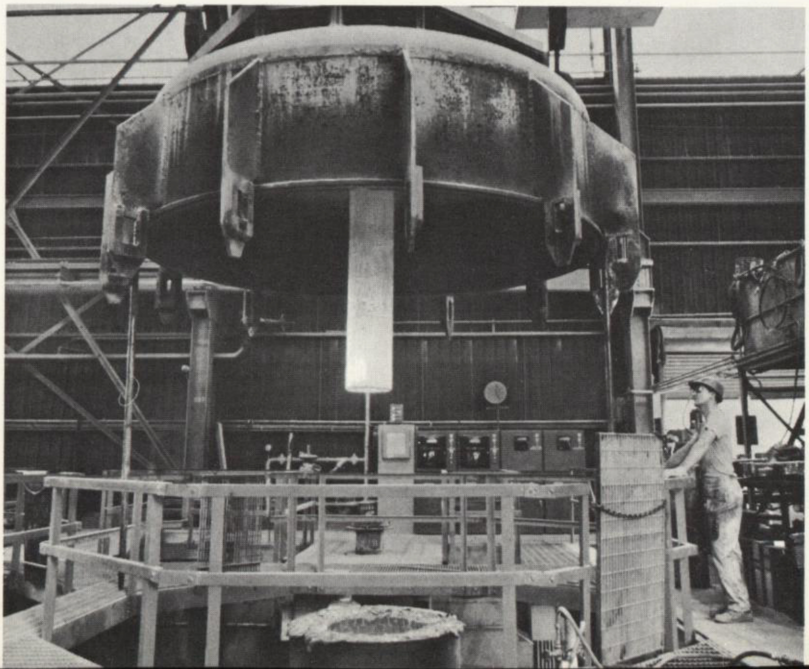
The Refractories division is widely known for the manufacture and supply of specialty refractory materials. It has continued its long-term program of improving its production facilities and profitability. In 1965, the division increased its volume, broadened its line of refractory materials, and improved product quality.

B&W heavy duty refractory brick continued to be one of the keystones of the division's operations. A major installation of this product was made in two blast furnaces at the Ford Motor Company's plant in Dearborn, Mich.

Two new forms of Kaowool ceramic fiber were introduced in 1965. One is ceramic paper which can be used as a gasket liner, in liquid or gas filtration, and in the processing of aluminum and other non-ferrous metals. The second is block form, where Kaowool ceramic fiber provides high-temperature insulation when a rigid shape is needed.

During 1965, the Refractories division acquired Standard Refractories Limited of Burlington, Ont., putting the Company in a position to extend its markets in Canada. Standard Refractories has already built a new facility where advanced production techniques are being used, with room for further expansion.

The complexity of modern-day glass products manufacture is shown in this drawing of the Owens-Illinois bottle plant at Bridgeton, N. J. Molten glass, its color determined by intricate formulas, is continuously mixed by heat-resistant stirrers made of B&W refractory material at top rear. B&W firebrick also is used in furnaces in this and other glassmaking plants.



Refractories division services to the steel and other metals industries continues to expand. New applications of B&W refractory materials include the use of a Kaomul tube in this pressure pouring process at Washington Steel Company's Houston, Pa., plant.

Diamond Power Specialty Corporation

Diamond Power continues to strengthen its position as the leading supplier of boiler cleaning equipment, gauges, and other vital components for steam plant systems. During 1965 it received orders for a large number of its new retractable sootblowers.

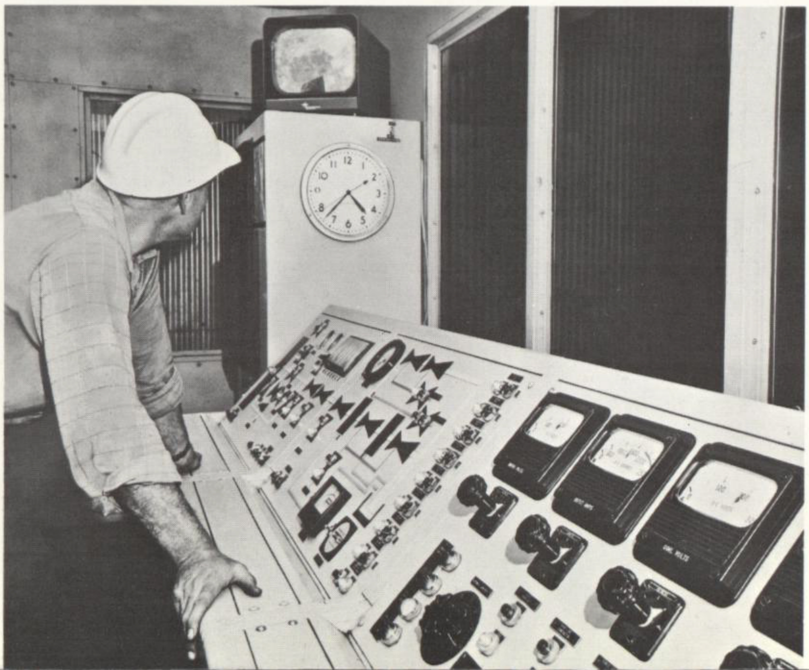
Diamond continued to investigate new fields for potential diversification during 1965. A new factory-assembled gas absorption system for the chemical, petrochemical, and pulp and paper industries is one result of these explorations. This product also has value in air pollution control.

Diamond's line of industrial television equipment continues to expand. Offering substantial cost savings, a greatly simplified educational TV system is being promoted for use in schools and colleges.

Another high-performance television camera, using silicon transistors, has been made part of a data retrieval package now being marketed by Remington Rand to insurance companies, hospitals, banks, and others.

During 1965, Diamond's British subsidiary purchased AB Superior of Stockholm, Sweden, now operating under the name of Diamond Superior AB. The Swedish company's products are used primarily in pulp and paper mills in Scandinavia.

A retractable sootblower, which can be extended up to 55 feet, whirls jets of steam against the heat-transfer surfaces of a boiler and keeps tubes clean, enhancing operating efficiency. Forty units like this are being supplied for the largest boiler ever ordered, a Babcock & Wilcox Universal Pressure boiler system for the Tennessee Valley Authority.



Operator observes TV monitor which is part of a Diamond Power television system showing the inside of a steel mill vacuum degassing chamber. Such systems aid plant operation and mill efficiency.

Bailey Meter information system aids in operation of the Universal Atlas Cement Company plant at Gary, Ind. These Bailey controls set the stage for step-by-step transition to computerized control of the large rotary kilns in the illustration.

Bailey Meter Company

In 1965, Bailey Meter Company completed its first half century of leadership in the design and application of instruments, controls, and computers for power generation and industrial processes and for naval and merchant vessels. It is continuing to move ahead with better products for broader markets as it enters its second 50 years.

Indicative of this progress is the choice of Bailey controls for what will be one of the most completely automated boiler installations in the world. The city of Jacksonville, Florida, ordered a Bailey control system consisting of three computer components providing automatic boiler control from light-off to full load. It is tied to a new B&W boiler being added to the city's electric power system.

This accomplishment followed an extensive marketing program which was launched in 1964 when Bailey offered utility customers its multi-computer control for complete power plant automation.

Bailey is extending its multi-computer systems for application in the process industries. Such systems are being proposed for highly-automated pulp and paper plants now in the design stages. A Bailey Power Demand Computer was installed in 1965 at the Arizona plant of one of the major copper companies. It automatically apportions electricity generated in the plant and power from outside sources for maximum economy and efficiency. Similar equipment is installed in steel and other metal production plants.

In the marine field, where Bailey controls made automated operation practical in 1964, total control from the bridge was provided for an ocean-going bulk carrier in 1965.

Chief engineer on the Hawaiian Monarch inspects Bailey Meter control panel which enabled this Matson Lines ocean-going ship to win Coast Guard approval of fully automated boiler operation. There are 22 ships using or being equipped with such Bailey controls for varying degrees of automation.

This 20-ton pump casting, one of the largest ever made in Canada, illustrates the product diversity of Babcock-Wilcox and Goldie-McCulloch. Shown as it was made, it was one of six huge pumps supplied for a sewage treatment system in Vancouver, B.C.

Babcock-Wilcox and Goldie-McCulloch Limited

A record level of orders was received by Babcock-Wilcox and Goldie-McCulloch in 1965 from utilities, pulp and paper mills, and other Canadian industries. Its manufacturing plant at Galt, Ont., is in the midst of an accelerated capital expansion program.

A 50,000-square-foot addition for the fabrication of nuclear and conventional boiler components was completed in 1965. This heavy manufacturing shop provides facilities for the production of large boilers.

Shop equipment now includes a 350-foot-long membrane wall welding bed and two membrane welding machines to be used in fabricating utility and pulp and paper units. Among other pieces of major equipment purchased in 1965 is one of the largest horizontal boring mills in Canada. Expansion of other facilities is in process.

Shipments from Galt went around the globe to Europe, New Zealand, Pakistan, and Chile. The company continued to handle a large portion of the Canadian marine boiler business. The pump division increased its bookings in 1965, with significant orders placed by the pulp and paper industry. Improved facilities for production and testing of the company's pumps were installed at Galt.

Completion of a 50,000-square-foot addition to the Galt works and installation of much new equipment enables Babcock-Wilcox and Goldie-McCulloch to meet the demand for its boilers and other products.

The Babcock & Wilcox Company

General Offices, 161 East 42nd Street, New York, N.Y. 10017 ☐ Sales Offices in principal cities

Facilities

Atomic Energy Division
Lynchburg, Va.

Boiler Division
Barberton, Ohio
Brunswick, Ga.
Lynchburg, Va.
Mount Vernon, Ind.
Paris, Texas
West Point, Miss.
Wilmington, N.C.
W. F. & John Barnes Works
Rockford, Ill.
Menardi and Company
Torrance, Calif.

Refractories Division
Augusta, Ga.
Hephzibah, Ga.
Standard Refractories Limited
Burlington, Ont., Canada

Research and Development Division
Alliance, Ohio
Lynchburg, Va.

Tubular Products Division
Alliance, Ohio
Beaver Falls, Pa.
Milwaukee, Wis.

Bailey Meter Company
Cleveland, Ohio
Wickliffe, Ohio
Bailey Meter Company Limited
Montreal, Que., Canada

Diamond Power Specialty Corporation
Lancaster, Ohio
Diamond Power Specialty Limited
Dumbarton, Scotland
Woolston, Southampton, England
Diamond Superior AB
Sundbyberg, Sweden

Babcock-Wilcox and Goldie-McCulloch Limited
Galt, Ont., Canada

A. M. Lockett & Co., Limited
Jefferson Parish, La.

Products

Steam Generating Equipment
For Power, Industrial Process
  and Heating, and for Marine Service
    Water Tube Boilers
    Water-Cooled Furnaces
    Superheaters and Reheaters
    Economizers
    Regenerative and Tubular Air Heaters
    Pulverized Coal Systems
    Cyclone Furnaces
    Coal, Oil, Gas and Multi-fuel Burners
    Cleaning Systems for Heat
      Transfer Surfaces
    Water Gauges
    Automatic Controls and
      Instruments
    Performance Computers

Atomic Energy Equipment
Complete Nuclear Power Systems
  and Components
    Reactors and Cores
    Pressure Vessels
    Fuel Elements
    Heat Exchangers
    Controls and Instrumentation
    Control Rod Drives
    Reactor Mechanisms
    Liquid Level Gauges
    Performance Computers
Test Reactors
Critical Experiments
Research and Economic Studies
Irradiation and Hot Cell Services
Advanced Fuels Development

Tubular Products
Stainless, Alloy or Carbon Steel
  Seamless and Welded Tubes
    and Pipe for all Types of Pressure
    and Mechanical Applications
Extrusions—Tubular and Solid Shapes
Welding Fittings and Flanges
Seamless Rolled Rings

Refractories Products
Insulating Firebrick
Special Firebrick
Silicon Carbide
Plastics, Mortars, Castables,
  Ramming Mixes, Calcines
Ceramic Fibers
Special Oxide Refractories
Kaolin Clays

Automation Equipment and Control Systems
Systems for Process Automation
Metering and Control Apparatus
Industrial Process Computers and
  Information Systems
Automated Production Machinery
Industrial (Closed-Circuit) Television

Special Equipment
Hollow Forgings for Steam Piping and Other Uses
Alloy Castings
Heavy Pressure Vessels
Heat Exchangers
Recovery Processes for the Pulp Industry
Stud Tensioners
Air Pollution Control Equipment
  Filterhouses
  Filter Bags and Accessories
  Venturi Scrubbers
  Gas Absorption Systems

1965

Annual Report